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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00291-R00		
Subject:	Settlements		
Title:	Adjustment Period Allocation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	9	Appendix:	
Sections:	6.6		
Sub-sections proposed for amending:	6.6.8		

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	09 June 05
2.0	Publish for Stakeholder Review and Comment	14 June 05
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

### PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

#### Summary

Based on a recommendation from the Market Pricing Working Group, this amendment proposes that certain post-final settlement adjustments be allocated using the adjustment period allocation method which is based on market participants' activity at the time of the event causing the adjustment. The market rules currently provide that all offsetting, post-final settlement adjustments be applied as a current period adjustment. Current period adjustments are based on participant transactions for the billing period during which the adjustment is effected, without regard for the participant transactions during the billing period or trading day in which the event that triggered the adjustment occurred.

The amendment, which is based on an manual IESO process for performing an adjustment period allocation, proposes:

- A threshold for the use of the adjustment period allocation method of \$3.5 million (or \$0.29/MWh for an average monthly market energy amount). Post-final settlement adjustments less than this threshold would be recovered/allocated from the rest of the market under the existing current period adjustment mechanism. The proposed threshold balances the additional cost of manually administering an adjustment period allocation against the average dollar impact of the adjustment.
- In the event that the IESO cannot allocate credits or debits to a former market participant who is owed money or who owes money as a result of an adjustment period allocation adjustment, the outstanding credits or debits will be distributed to the market as a current period adjustment.

The proposed amendments are intended to balance the appropriate and efficient allocation of market costs against the dollar impacts of post-final adjustments. In general, the impact of offsetting, post-final adjustments in relation to the overall market are small as the adjustment amount is spread over the entire market. In addition, market experience has demonstrated that, generally, market participants' activity does not change significantly from month to month. As a result, method of application (current period vs. adjustment period allocation) will have little impact on the actual dollar value to be allocated to or collected from an individual market participant in most cases.

#### Background

Under certain conditions, a settlement adjustment for a market participant for a given trading day is required after the IESO has issued the final settlement statement for that trading day, e.g. resolution of a Notice of Disagreement (NoD) that is completed post-final, a dispute, discovery of a metering error, etc. The market rules currently provide that the IESO shall determine the offsetting amounts to be recovered from or distributed to other market participants by means of a current period adjustment applied to a subsequent preliminary settlement statement. Current period adjustments are based on transactions for the billing period during which the adjustment is effected, without regard to the billing period or trading day in which the event that triggered the adjustment occurred.

Concerns about the fairness of the current period adjustment method were raised by several market

### PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

participants in the form of (NoDs) as a result of a significant current period adjustment on preliminary settlement statements for July 31, 2004 (issued on August 16, 2004). These adjustments related to a revenue metering error that resulted in incorrectly high energy and uplift charges to a market participant and, consequently, incorrectly low uplift charges to others over a period of twenty-one months. The market participant that had overpaid because of the metering error was reimbursed \$31 million. As required under the current market rules, this reimbursement payment was collected from the market via offsetting uplift charges applied based on the energy that other market participants withdrew in July 2004, the billing period of the current period adjustment. Market participants asserted that current period adjustment is an inappropriate basis to determine recovery of the adjustment as it does not reflect market participants' activity during the original event requiring the settlement adjustment. This was particularly the case for any market participants who were not active in the IESO-Administered Markets for portions of the period in which the error was accumulating.

The issue was entered into the IESO Participant Issues Log in September 2004 and the Market Pricing Working Group (MPWG) was asked to consider alternative ways for making settlement adjustments in the future. The MPWG recommended that the IESO use the adjustment period allocation method rather than the current period adjustment for the allocation of all settlement adjustments required after a final settlement statement is issued. Details of the MPWG recommendation can be found at [http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG\\_2005Mar10\\_Iss17Redline.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Mar10_Iss17Redline.pdf).

#### Discussion

##### 1. Threshold for Adjustment Period Allocation

The first proposed amendment is to specify that offsetting, post-final adjustments will be administered using the adjustment period allocation method if the original adjustment that triggered the offsetting adjustments is \$3.5 million or greater. If the initiating adjustment is less than \$3.5 million, the offsetting adjustments will continue to be administered as current period adjustments through the existing, automated settlements system.

The cost of settlement tools changes to automate adjustment period allocations, thereby enabling all post-final adjustments to be administered as adjustment period allocations, is estimated at \$450,000. Automating the adjustment period allocation methodology is not considered to be cost-effective given the following factors:

- There have been relatively few post-final adjustments (105) from market commencement to January 2005 compared to the number of settlement statements that have been issued during that period. (Every day the IESO generates close to 500 settlement statements.)
- Post-final adjustments are generally small dollar amounts. Nearly 83% of all post-final settlement adjustments range between a total value of \$1 and \$99,999 and average less than \$35,000 (which translates to \$0.003/MWh in terms of the required offsetting adjustments). Only five adjustments were over \$1 million and only one was over \$3.5 million (the \$31 million adjustment in July 2004).
- The offsetting adjustments have usually small impact on other market participants. In most cases, market participants' load profile between the two periods is similar so the method of application (current period vs. adjustment period allocation) would have little impact on the actual dollar value to be allocated to or collected from an individual market participant. A sensitivity analysis of the method used to allocate the \$31 million adjustment in July 2004 indicates that for most market participants, the method of application (current period vs. adjustment period allocation) results in a difference in the amount owing that is less than +/- 1% of each participant's total settlement

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

charges for July 2004, although there are a small number of market participants for whom the impact was more significant. (The largest difference in the amount owing was 6% of a participant's total settlement charges for July 2004).

A threshold for adjustment period allocation is appropriate because of the additional costs associated with its manual application. Compared to the current period adjustment method, 35 additional person-hours per event are required to manually administer adjustment period allocations. Using this manual approach, the IESO would require slightly in excess of an additional three-quarters of a full-time equivalent to administer all offsetting post-final adjustments to date based on an adjustment period allocation.

A threshold of \$3.5 million for adjustment period allocations is proposed because it is sufficiently low so that adjustments with potentially significant impacts are allocated more fairly. At the same time, the proposed threshold is sufficiently high so that a manual allocation is not required for less significant adjustments (i.e. the threshold eliminates the need for additional IESO resources for small adjustments since small adjustments would continue to be allocated as current period adjustments). Prior to the \$31 million adjustment in July 2004, no concerns had been raised by market participants regarding the current period adjustment methodology. As such, the proposed threshold is an appropriate means of addressing market participants concerns about the fair allocation of significant adjustments. At the proposed threshold of \$3.5 million and based on market experience to date, most market participants would see less than 0.1% difference in their total monthly settlement charges if an adjustment period allocation was used compared to a current period adjustment. While some market participants may see a larger difference, the threshold provides certainty around a market participant's exposure to current period adjustments.

**2. Allocating Outstanding Costs/Credits to the Market**

The second proposed amendment is to create a new section (6.8.5A) to specify that if funds cannot be recovered from, or distributed to, a market participant who has exited the market, that participant's share of the adjustment will be apportioned to current market participants as a current period adjustment. Under the market rules, Chapter 2, Section 9.1.5, a person who ceases to be a market participant remains subject to and liable for all of its obligations and liabilities as a market participant. The provision of the default levy (Chapter 2, Section 8.8) sets a precedent that the IESO must take reasonable steps to recover costs or distribute credits to market participants (current or former). If the IESO cannot recover these costs or distribute these credits, it is proposed that the outstanding amounts be allocated to the market as a current period adjustment due to its simpler implementation (compared to an adjustment period allocation) and the anticipated small dollars involved.

**PART 4 – PROPOSED AMENDMENT****6.6 Validation of Preliminary Settlement Statement**

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- 6.6.8 Any changes required to be made in the final *settlement amounts* as a result of the validation process described in this section 6.6 shall, subject to section 6.16.3, be included as:

6.6.8.1 a debit or credit in the *final settlement statement*, or

6.6.8.2 if the IESO has already issued the final settlement statement prior to the determination of the required change, as:

a. a *current period adjustment* to ~~the~~ a subsequent preliminary settlement statement, as the case may be, issued for each affected *market participant* if the total amount to be credited or debited is less than \$3,500,000; or on the date on which the final settlement statement or the preliminary settlement statement that reflects an adjustment made pursuant to section 6.6.6 is issued.

b. an adjustment period allocation to a subsequent preliminary settlement statement issued for each affected market participant if the total amount to be debited or credited is greater than or equal to \$3,500,000.

#### **PART 5 – IESO BOARD COMMENTS**

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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00291-R01		
Subject:	Settlements		
Title:	Adjustment Period Allocation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	6	Appendix:	
Sections:	6.8		
Sub-sections proposed for amending:	6.8.5.3		

### PART 2 – PROPOSAL HISTORY

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**Summary**

Refer to MR-00291-R00

**Background**

Refer to MR-00291-R00

**Discussion**

Refer to MR-00291-R00

**PART 4 – PROPOSED AMENDMENT****6.8 Settlement Statement Recalculations**

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6.8.5.3 for any other *market participant* affected by the *settlement statement re-calculation*, reflect the amounts to be debited or credited in a subsequent *preliminary settlement statement* issued for the *market participant* by means of applying the incremental dollar amount determined in section 6.8.5.1 as:

a. a *current period adjustment* to all such *preliminary settlement statements* if the amount to be debited or credited to the *market participant* that originally filed the *notice of dispute* which resulted in the *settlement statement re-calculation* is less than \$3,500,000; or

b. an *adjustment period allocation* to all such *preliminary settlement statements* if the amount to be debited or credited to the *market participant* that originally filed the *notice of dispute* which resulted in the *settlement statement re-calculation* is greater than or equal to \$3,500,000.

.....



6.8.5A If, after making all reasonable efforts to do so, the IESO cannot allocate the amounts referred to in section 6.8.5.3b to a market participant who has exited the market, such amounts shall then be allocated to all other market participants affected by the settlement statement re-calculation as a current period adjustment in a subsequent preliminary settlement statement.

**PART 5 – IESO BOARD COMMENTS**

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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00291-R02		
Subject:	Settlements		
Title:	Adjustment Period Allocation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	2	Appendix:	
Sections:	9		
Sub-sections proposed for amending:	9.1.5		

### PART 2 – PROPOSAL HISTORY

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**Summary**

Refer to MR-00291-R00

**Background**

Refer to MR-00291-R00

**Discussion**

Under the market rules, Chapter 2, Section 9.1.5, a person who ceases to be a market participant remains subject to and liable for all of its obligations and liabilities as a market participant.

This amendment proposes to explicitly identify adjustment period allocation amounts owed by departed market participants as amounts for which a departed market participant remains liable.

**PART 4 – PROPOSED AMENDMENT**

**9. Withdrawal by a Market Participant**

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9.1.5 A person who ceases to be a *market participant* shall remain subject to and liable for all of its obligations and liabilities as a *market participant* including, but not limited to, a liability under section 8 and an *adjustment period allocation debit under Chapter 6, section 6.8.5.3b resulting from an event that occurred while such person was a market participant*, which were incurred or arose under the *market rules* prior to or on the *trading day* on which it ceases to be a *market participant* regardless of the date on which any claim relating thereto may be made.

**PART 5 – IESO BOARD COMMENTS**

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## Market Rule Amendment Proposal

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Identification No.:	MR-00291-R02		
Subject:	Settlements		
Title:	Adjustment Period Allocation		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	11	Appendix:	
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**Summary**

Refer to MR-00291-R00

**Background**

Refer to MR-00291-R00

**Discussion**

This amendment proposes to add “adjustment period allocation” as a defined term in the market rules.

**PART 4 – PROPOSED AMENDMENT**

**1. Definitions**

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*adjustment period allocation* refers to a means of allocating offsetting, post-final adjustments to *settlement amounts*. This allocation is based on *market participant activity in the energy market during the billing period or trading day associated with the event that is the subject of the originating settlement adjustment*;

**PART 5 – IESO BOARD COMMENTS**

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